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(U) SINO-JAPANESE RELATIONS: GAINING MOMENTUM

Summary

Sino-Japanese relations are rapidly regaining the momentum of their honeymoon period of the late 1970s, spurred by mutual economic interests and rising concern about the Soviet military presence in Asia. Prime Minister Nakasone's spring visit to China encapsulates the convergence that is taking shape. During the trip, China and Japan accentuated the bilateral economic relationship by completing the largest low-interest loan ever made by any country to China. China and Japan also gave new emphasis to their identity of views on a number of Asian security issues and agreed to closer foreign policy consultations at senior levels. Substantially improved bilateral ties will in time mean stiffer competition for US products in the China market but will also help bring China into closer alignment with US security interests in the region.

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Background

Over the past year, the Chinese economy has moved from a recovery phase to a development strategy that emphasizes higher rates of growth and a resumption of large technology imports. In this context, China sees Japan as an increasingly important partner which is willing to provide high technology and capital in exchange for Chinese natural resources and other export goods. Japan perceives the same striking compatibility and is building the basis for a long-term and extremely valuable economic relationship. Tokyo's extensive concessionary and commercial loans should achieve for it a much greater role in Chinese development and trade than the US can expect.

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Since 1979, Tokyo has extended about \$13.5 billion in official and commercial credits to Beijing, and more is forthcoming soon. Tokyo has pledged about \$3.5 billion in official low-interest development assistance for infrastructure projects and about \$2.0 billion in Japan Eximbank credits for energy development; an additional \$3.0 billion in energy development credits is now being considered. Japanese commercial banks have made available about an \$8 billion credit line at relatively low interest levels for various large-scale projects. Technical assistance has included offers from the Japanese private sector to help modernize thousands of China's aging factories.

The two countries also have embarked on joint exploration and development of rare strategic metals and uranium deposits. Trade, based on a rough exchange of China's energy and other raw resources for Japanese plants, machinery, and equipment, has reached the \$10 billion-per-year level and may double over the next decade.

New Impetus

Beijing's main efforts at this juncture are aimed at attracting more private Japanese investment in joint ventures. Chinese leaders are not altogether comfortable with the fact that although Japan is China's largest trading partner, its investments in China amount to less than 10 percent of total foreign investment there. During the March 1984 Nakasone visit, Beijing stressed the stability of China's present economic and political course--an issue that continues to worry Japanese investors. Uneasiness lingers within the Japanese business community over the 1981-82 decision by China suddenly to curtail imports of heavy industrial goods and its inability to meet its oil and coal commitments to Japan under their long-term trade agreement.

Both China and Japan seem increasingly receptive to establishing a special political relationship that reinforces their mutual economic interests. Tokyo believes that such a connection with Beijing will help tie China to the West, lend credibility to the pragmatic, pro-Western line of the Deng Xiaoping regime, and promote stability in the region. In building such a relationship, Japan has sought to tread lightly on such sensitive issues as its defense buildup. When Tokyo has raised this subject, it has been to reassure China that Japan would never revive militarism.

The Chinese have also sought to put the best face on their political relations. Premier Zhao recently told the Australians that he thought the chances of a revival of Japanese militarism were extremely remote, and China's press has not raised the issue since last fall. Meanwhile, the Chinese continue to leave dormant several longstanding irritants, including conflicting claims to the Senkaku Islands and Japan's extensive involvement with Taiwan.

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Where Do They Go From Here?

In the months ahead, China and Japan will make a determined effort to galvanize their political relationship. Both sides recognize that most past disputes have revolved around commercial matters and that these are sure to increase with an expansion of economic relations. Moreover, Beijing also would like to develop a long-term relationship with Tokyo that would be insulated from possible political setbacks in US-China ties caused by Taiwan or other contentious issues.

The closeness of the relationship will be limited ultimately by national self-interests. Beijing will be constrained by its desire not to be overly dependent on Japan as a supplier of goods and capital at the expense of other countries and by deep-seated memories of Japan's militarist past. Tokyo will be constrained by lingering insecurity over its investments in a socialist economy and by a desire not to rely too heavily on China for its imported resources.

Nevertheless, Moscow's accelerated military buildup in Asia is a major factor that will continue to push China and Japan into close political alignment. During Nakasone's visit, Beijing went beyond previous media treatment in stressing its common view with Tokyo of the Soviet threat, according particular emphasis to SS-20 deployments. The two countries agreed to exchange information on the missiles and to increase overall foreign policy consultations at the ministerial level. Should intermediate-range nuclear forces talks reconvene, Tokyo and Beijing may coordinate their efforts vis-a-vis the US to make sure that their interest in maintaining global limits is not compromised in the course of the negotiations.

In recent months, the Chinese appear to be increasingly comfortable with Japan's more activist political role in the region. Chinese officials no longer raise criticisms, as they did in early 1983, of Nakasone's pledge to extend Japan's defense perimeter to Taiwan and the four strategic straits near Japan. Instead, they praise Nakasone for being the first Japanese Prime Minister willing to advocate publicly that Japan should have a major voice in world affairs. During his visit to China, Nakasone began a dialogue on a number of international issues, focusing on problems of stability on the Korean Peninsula, and offered his good offices to foster better relations between South Korea and China.

The Chinese most recently have hinted at something resembling Sino-Japanese entente. During Party Secretary General Hu Yaobang's visit to Japan, the Chinese for the first time asserted that strong Sino-Japanese relations are crucial to the peace and stability of the region. The Chinese continue to affirm their lack of concern with the Japanese buildup, apparently confident that

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Tokyo plans only marginal military growth. Nevertheless, they remain watchful for a more militarist tendency.

China's greater acceptance of a more activist role by Japan in the region is paralleled by an attitude somewhat more positive than in recent years toward the US military posture. Echoing statements made to the Japanese, the Chinese have emphasized over the past few months the importance of healthy Sino-US relations to the peace and stability of Asia. In addition, articles have appeared in Chinese media which give tacit approval to the US military buildup in Asia. Although reluctant openly to endorse US-Japan military cooperation, Chinese officials continue to express support for strong ties between Tokyo and Washington.

At this juncture, neither China nor Japan sees its interests sufficiently threatened by the Soviet Union to move toward military cooperation. In fact, Nakasone explicitly ruled out such an option during his visit to China. Beijing needs regional stability in order to continue to devote its resources to economic development, and it appears confident that its recent improvement of relations with the Soviets has reduced the near-term threat to its security.

Hence, Beijing likely will avoid introducing the strong anti-Soviet rhetoric characteristic of the late 1970s into its present relationship with Japan. The Chinese have turned aside, at least for the time being, a request by Japan that Beijing support its position on the sovereignty of the Northern Islands in its talks with the Soviet Union. Nevertheless, prospects are good that the two sides will supplement their agreed Foreign Ministry consultations on Soviet military activity with exchanges of official military delegations. Indeed, this process is off to a fast start with the unprecedented visit of China's Defense Minister to Tokyo in early July.

Prepared by Charles Martin, William Brooks
632-1343

Approved by Louis G. Sarris
632-1179